

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 NEA-10 ISO-00 PM-05 NSC-05 SP-02
SS-15 TRSE-00 OMB-01 CIAE-00 INR-10 NSAE-00
DODE-00 ACDA-12 L-03 DOE-15 SOE-02 IO-13 H-01
/115 W

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P R 180737Z JUL 78
FM AMEMBASSY ANKARA
TO SECSTATE WASHDC PRIORITY 2646
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY NICOSIA
AMEMBASSY PARIS
AMEMBASSY ATHENS
AMCONSUL ADANA
AMCONSUL ISTANBUL
AMCONSUL IZMIR

C O N F I D E N T I A L SECTION 1 OF 2 ANKARA 5204

USEEC, USOECD

E.O. 11652: GDS
TAGS: EFIN, TU
SUBJECT: RESCHEDULING AND CREDIT AGREEMENTS WITH FOREIGN BANKS
UNLIKELY TO BE IMPLEMENTED BEFORE END OF SEPTEMBER

REF: A) ANKARA 5111, B) ANKARA 5114

SUMMARY. TURKISH FINANCE MINISTER MUEZZINOGLU IS EXPECTED
TO SIGN EARLY THIS WEEK TERM SHEET NEGOTIATED WITH COORDINATING
COMMITTEE OF EIGHT LEAD BANKS, SETTING OUT TERMS OF EFFORT TO
RESCHEDULE \$2.5 BILLION OF TURKISH GOVERNMENT'S DEBTS TO
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FOREIGN PRIVATE BANKS AND TO RAISE \$500 MILLION IN NEW CREDITS.
THERE ARE SEVERAL PERILS THAT MUST BE SKIRTED, HOWEVER, BEFORE
AGREED TERMS CAN BE TRANSLATED INTO RESCHEDULING COMMITMENTS
AND A LOAN AGREEMENT. WILLINGNESS OF ALL CREDITOR BANKS TO
PARTICIPATE IS ESSENTIAL TO RESCHEDULING OPERATION. BUT
WILL THEY PARTICIPATE?-- ESPECIALLY IN LIGHT OF ATTEMPT
BY SWISS FIRM TO GET PAID QUICKLY BY ATTACHING ASSETS OF

TURKISH CENTRAL BANK IN SWITZERLAND. ABILITY OF GOT TO MEET IMF REQUIREMENTS IS A CONDITION PRECEDENT TO EITHER RESCHEDULING OR NEW CREDIT. CAN TURKEY MEET THESE CONDITIONS? IT THEREFORE REMAINS TO BE SEEN WHETHER OR NOT RESCHEDULING CAN BE ACCOMPLISHED. AND, IF IT CAN BE, IT STILL REMAINS TO BE SEEN HOW MUCH OF THE \$500 MILLION TARGET FOR NEW MONEY CAN BE RAISED FOR TURKEY. IT SEEMS UNLIKELY THAT TURKEY WILL OBTAIN DEBT RELIEF OR NEW CREDITS UNDER THESE ARRANGEMENTS BEFORE END OF SEPTEMBER, IF THEN. END SUMMARY

1. TURKISH GOVERNMENT, AT WORKING LEVEL, HAS APPROVED TERMS PROPOSED BY COORDINATING COMMITTEE OF EIGHT LEAD BANKS UNDER WHICH EFFORTS WILL BE MADE TO RESCHEDULE \$2.5 BILLION IN GOT DEBTS TO 221 FOREIGN BANKS AND RAISE \$500 MILLION IN NEW CREDITS. FINAL FORM OF TERM SHEET WILL BE PRESENTED BY BANKS TO FINANCE MINISTER MUEZZINOGLU EARLY THIS WEEK. HIS SIGNATURE IS EXPECTED TO BE PRO FORMA.

2. BUT IT MAY NOT BE UNTIL END OF SEPTEMBER, "IF EVER", THAT DEBTS ARE ACTUALLY RESCHEDULED, IN THE VIEW OF RICHARD GEORGE, CITIBANK REPRESENTATIVE IN ISTANBUL, WHO HAS BEEN CLOSELY INVOLVED IN THE NEGOTIATION OF THE TERMS. FURTHERMORE, HE REGARDS THE EFFORT TO RAISE \$500 MILLION IN NEW MONEY AS PROBABLY OVER-AMBITIOUS. (LEAD BANKS ARE CHASE-NANHATTAN, MORGAN GUARANTY, CITIBANK, DRESDNER BANK, DEUTSCHE BANK, UNION BANK OF SWITZERLAND, CREDIT SUISSE, BARCLAY'S BANK.)
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RESCHEDULING

3. ABOUT \$2.0 BILLION IN MULTIPLE-CURRENCY CONVERTIBLE LIRA DEPOSITS (CTL'S) HELD BY 221 BANKS ARE PLANNED FOR RESCHEDULING, PLUS ABOUT \$500 MILLION IN SHORT-TERM BANKERS' CREDITS. RESCHEDULING IS COMPLICATED BY THE DIFFICULTY OF ADMINISTERING AN EFFORT INVOLVING 221 FOREIGN BANKS AND BY THEIR POSSIBLE SKITTISHNESS. NO BANK WILL RESCHEDULE IF OTHER BANKS ARE LIKELY TO BE PAID BEFORE IT. IF SOME BANKS HOLDING EVEN A SMALL PORTION OF THE \$2.5 BILLION WERE TO REFUSE TO PARTICIPATE, THEY COULD JEOPARDIZE THE ENTIRE OPERATION. SPEAKING OF THE TASK AHEAD, RODNEY WAGNER, VICE PRESIDENT, MORGAN GUARANTY, COMMENTED IN ANKARA TWO WEEKS AGO THAT A "STAGGERING NUMBER OF THINGS REMAIN TO BE DONE; LET'S HOPE WE CAN DO IT".

4. THE TASK MAY BE COMPLICATED BY A RECENT DEVELOPMENT IN SWITZERLAND. GEORGE SAID LAST WEEK THAT A SWISS FIRM THAT HAS GONE UNPAID BY THE GOT HAS SOUGHT TO ATTACH THE ASSETS OF THE TURKISH CENTRAL BANK IN SWITZERLAND. GEORGE SAID THAT SUCH AN ATTACHMENT IS RELATIVELY EASY TO EFFECT

UNDER SWISS LAWS AND POSSIBLE IN CERTAIN OTHER COUNTRIES,
BUT NOT THE UNITED STATES. CENTRAL BANK HASTILY
DISPATCHED ITS CHIEF COUNSEL TO ZURICH TO PROTECT ITS INTERESTS.
IF THE FIRM IS SUCCESSFUL, IT COULD ESTABLISH AN ALTERNATIVE
THAT WOULD UNDERMINE THE RESCHEDULING AND START RUN ON
TURKISH ASSETS ABROAD.

5. RESCHEDULING OF CTL'S WILL INCLUDE ALL ARREARS ON
PRINCIPAL AS OF DATA WHEN FORMAL RESCHEDULING AGREEMENT IS
FINALLY SIGNED (ABOUT \$350 MILLION) AND PAYMENTS ON PRINCIPAL
COMING DUE THEREAFTER IN 1978, 1979, AND 1980. NO INTEREST
PAYMENTS WILL BE INCLUDED IN RESCHEDULING. ARREARS IN INTEREST
PAYMENTS, WHICH AMOUNT ONLY TO ABOUT \$17 MILLION, WILL BE
PAID OFF BY THE TURKS BEFORE THE AGREEMENT BECOMES EFFECTIVE.
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ROLL-OUT WILL PROVIDE THREE-YEAR GRACE PERIOD STARTING ON
THE MATURITY DATE OF EACH CREDIT IN QUESTION AND REQUIRE
REPAYMENT IN 13 EQUAL QUARTERLY INSTALLMENTS, EXCEPT THAT NO
CTL DEPOSITS INVOLVED WILL MATURE AFTER JUNE 30, 1985. GRACE
PERIOD FOR REPAYMENT OF ARREARS BEGINS FROM DATE AGREEMENT IS
SIGNED.

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C O N F I D E N T I A L SECTION 2 OF 2 ANKARA 5204

USEEC, USOECD

INTEREST WILL BE 1 3/4 PER CENT OVER THREE-MONTH LIBOR.
(TURKS WERE NOT HAPPY WITH THE RATE, WHICH AMOUNTS TO ABOUT
11 PER CENT PER ANNUM).

6. FIFTEEN BANKS WILL PARTICIPATE IN A NEW LOAN TO REFINANCE
THE AMOUNT OUTSTANDING TO THEM IN SHORT-TERM BANKER CREDITS.
SAME TERMS WILL APPLY AS TO RESCHEDULING OF CTL'S.

7. BANK OVERDRAFTS WILL NOT BE RESCHEDULED. THESE WILL BE
HANDLED ON A BILATERAL BASIS BETWEEN THE CENTRAL BANK AND
THE FOREIGN BANKS INVOLVED. TURKS WILL NOT HAVE TO PUT OUT
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ANY MONEY TO "REPAY" THESE. BANKS ARE SUGGESTING THAT
CENTRAL BANK CONSOLIDATE ABOUT \$25-30 MILLION OF ITS ASSETS
IN FOREIGN BANKS (IF IT HAS THIS MUCH) AND SWITCH THIS SUM
FROM BANK TO BANK TO CREATE MOVEMENT IN TURKISH ACCOUNTS
AND AVOID APPEARANCE OF STATIC OVERDRAFTS.

NEW CREDITS

8. THE EIGHT LEAD BANKS AGREED TO TURKISH GOAL OF \$500
MILLION IN NEW SYNDICATED LOAN. AFTER SOME FOOT-DRAGGING BY
ONE OF THEM, WHICH WE UNDERSTAND TO HAVE BEEN BARCLAY'S, EACH
HAS NOW AGREED TO PUT UP \$25 MILLION. GEORGE WAS "FAIRLY
SURE" THAT THEY WOULD BE ABLE TO RAISE \$200 MILLION MORE
FROM OTHER MAJOR BANKS. THE LAST \$100 MILLION WILL HAVE TO
BE PUT TOGETHER IN SMALL PIECES, IF AT ALL. THE CREDIT WOULD
HAVE A THREE YEAR GRACE PERIOD AND BE REPAYED IN 17 EQUAL
QUARTERLY INSTALLMENTS OVER THE FOLLOWING FOUR YEARS.
INTEREST WOULD ALSO BE 1 3/4 PER CENT OVER THREE MONTHS
LIBOR. MONEY MAY BE USED TO FINANCE ESSENTIAL IMPORTS MUTUALLY
AGREED BETWEEN BANKS AND GOT. NEW CREDIT WILL NOT BECOME
AVAILABLE UNTIL RESCHEDULING AGREEMENT IS SIGNED.

TIE TO IMF CONDITIONALITY

9. BOTH THE RESCHEDULING AND THE NEW CREDIT ARE TIGHTLY
TIED TO TURKISH COMPLIANCE WITH THE CONDITIONS OF THE IMF
STANDBY AGREEMENT. THE BANKS WILL PROVIDE 25 PERCENT OF

THE NEW CREDIT IMMEDIATELY AFTER CREDIT AGREEMENT IS SIGNED AND THE REMAINING THREE TRANCHES ONLY IN CONJUNCTION WITH SUCCESSIVE IMF CREDIT DISBURSEMENTS IN AUGUST, NOVEMBER, AND FEBRUARY. IMF IS CONCERNED THAT TURKEY MAY HAVE TROUBLE MEETING ITS CONDITIONS. (REFTELS)

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MANAGEMENT

10. UNDER ADVICE OF COORDINATING COMMITTEE, GOT HAS HIRED KUHN-LOEB, E.M. WARBURG, AND LAZARD FRERES TO COLLABORATE JOINTLY AS ADMINISTRATIVE MANAGER OF THE TOTAL PACKAGE. THE MANAGERS WILL SEND OUT TO BANKS CONCERNED A PACKET CONTAINING MEMORANDUM PREPARED BY GOT ON TURKEY'S ECONOMIC SITUATION IN 1978, GOT DEBT-SERVICE PROJECTIONS, STANDBY AGREEMENT WITH IMF, RESCHEDULING FRAMEWORK AGREEMENT WITH 14 CREDITOR COUNTRIES (MAY 20, 1978), TOGETHER WITH COVER LETTER FROM TURKISH CENTRAL BANK OUTLINING GOT'S REQUESTS. BANKS WILL BE ASKED TO REPLY WITHIN TWO WEEKS OF RECEIPT OF PACKET.

COMMENT. IF IMPLEMENTED, THESE RESCHEDULING AND CREDIT ARRANGEMENTS WILL CONTRIBUTE TO HEAVY REPAYMENT BURDEN ON TURKS BEGINNING IN 1981. THAT THEY WILL BE BETTER ABLE TO MEET PAYMENTS THEN THAN THEY ARE NOW IS TO BE HOPED BUT IT IS NOT DEMONSTRABLE. TURKS ARE AWARE OF THE PROBLEM. BANKS ARE AWARE OF THE PROBLEM. BUT NOBODY TALKS ABOUT IT, EXCEPT YAVUZ CANEVI, DIRECTOR GENERAL FOR FOREIGN EXCHANGE IN THE CENTRAL BANK, WHO SAID RECENTLY IN AN UNGUARDED MOMENT THAT, OF COURSE, TURKEY WILL HAVE TO RESCHEDULE AGAIN THREE YEARS FROM NOW WHEN IT COMES UP AGAINST THIS WALL OF DEBT.
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